

We believe people are the key to delivering successful ESG and sustainability outcomes. In this paper, the first of a multi-part series, we look at the critical people considerations for your ESG strategy, including purpose, board governance, leadership and talent, operating model and culture. In future installments, we will go deeper into the people-related issues that impact effective and lasting transformation.

Everyone is talking about ESG (environmental, social and governance). News stories. Blog posts. Investment conversations. Disclosure reports. Not a day goes by without the latest topics and issues being raised, challenged, debated and discussed.

What we don't hear so often is how an organization intends to reach its goals.

Increasingly, board members and management teams are going public with their sustainability commitments, inspiring us all with ambitious, well-intentioned statements about what they and their organizations are going to achieve and by when.

What we do not hear so often are the details. How does the organization intend to reach its goals? What exactly is its approach to ESG and sustainability? Is there a concrete change plan in place and, if so, who is going to deliver it?



The lack of detail here is worrying because, as research has shown, roughly 70% of transformation efforts fail. Why do they fail? Because the critical element of successful transformation is too often overlooked. A recent Korn Ferry study¹ found that just two out of 50 possible factors explained more than a third of the difference in success. These were senior manager leadership and organizational culture—factors you rarely hear mentioned in commitments on sustainability.

It's time for a more people-focused approach to ESG. Working tirelessly with environment scientists to find a path to net zero is important. But if you aren't simultaneously considering how your people are going to take you down that path then your efforts are bound to fall short.



Critical questions

In this paper, we will look at five critical people-related questions organizations need to ask and answer about ESG:

How important is ESG to us - why are we doing this, who are we trying to satisfy, what is our time horizon and how do we measure success?

How does our board need to evolve to oversee, enable, and support delivery of our ESG strategy?

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How do we attract, develop and retain the leadership, talent and skills needed to drive ESG strategy and outcomes?

How do we organize to deliver our ESG and sustainability strategy, including structure, work and platforms?

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How do we create the right culture and mindsets, engage our people and reinforce the right behaviors?



How important is ESG to us - why are we doing this, who are we trying to satisfy, what is our time horizon and how do we measure success?

Purpose-driven organizations are more successful organizations. Fact.

Korn Ferry research reveals that companies driven by purpose post compound annual growth rates of 9.85% compared to 2.4% for the S&P 500 overall². So, when we talk to our clients about developing and implementing ESG and sustainability strategies, the first question we always ask them is "Why?".

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Answering this question is not always easy.
But answer it you must—because unless you can clearly articulate what or who is driving the need for change, you will not be able to identify the actions and levers required for success.

Take DTE Energy, a Detroit-based diversified energy company that has committed to achieving net zero carbon and greenhouse gas emissions by 2050.

A key priority for its executives over recent months has been to refine and communicate the company's purpose in line with its bold sustainability goals. The company's refreshed purpose is "We improve lives with our energy." Diane Antishin, Vice President of HR Operations and Chief Diversity & Inclusion Officer for DTE Energy, explains: "Our aspiration is to be best in the world and best for the world, so this purpose statement represents the idea of what we contribute and do to enable progress and society."

The wisdom of DTE Energy's approach is borne out by years of Korn Ferry research: for truly successful change, leaders need to rally around a unified purpose that is propelled and sustained by people across the organization.



How does our board need to evolve to oversee, enable, and support delivery of our ESG strategy?

ESG-related issues are a growing concern in the boardroom.

Large institutional shareholders, proxy advisors, regulatory bodies, and ESG rating agencies are subjecting companies' sustainability and risk profiles to ever greater scrutiny. If they are to provide the required oversight and support, boards need to have the right information reported to them. Only then will they be able to take action and make changes where necessary.

Putting an effective reporting process together takes careful thought and preparation. The management team needs to decide what to measure and how. The board needs to work out how to evaluate management's work and ensure it aligns with the organization's values, ESG targets and overall goals.



Should the board add new directors with ESG-related experience? Do directors need better education on ESG-related issues? Is a new committee needed to oversee ESG and sustainability issues (or can an existing committee take on the job)? These are questions we often hear from organizations. While they are all relevant and must be answered, we think the most important question for boards to address is how they can ensure their organization treats ESG as a holistic and strategic business imperative.

We believe that most organizations should identify ways to embed ESG into the fabric of their culture and operating models, and that boards should integrate material ESG issues into their oversight and support of corporate strategy and enterprise risk.

Reinforcing desired behaviors at executive level

The number of companies adopting ESG metrics as part of their annual and/or long-term incentive programs has exploded in recent years. Only five years ago, the practice was virtually unheard of. Today, 44% of the S&P 500³ use one or more ESG metrics in their incentive plans for at least one member of their executive team.

In the U.S., early adopters have tended to focus on diversity and inclusion. European companies are more inclined towards environmental objectives. Either way, the use of such metrics in executive incentives is only likely to increase. In the future, we can expect ESG to exert a major influence on how senior leaders set priorities each year and how they hold themselves and others accountable.





How do we attract, develop and retain the leadership, talent and skills needed to drive ESG strategy and outcomes?

Enterprise leaders

Leaders of sustainable organizations need to both perform and transform. It is not enough simply to deliver strong results today. They must also rally the workforce around the organization's purpose and vision and empower them to take the right actions for tomorrow.

This requires a deep understanding of how the organization is connected to its ecosystem and what impact it has on society and the environment. It also means operating in a world with fluid boundaries and broad horizontal networks.

Traditional leadership models are not suited to this more complex and ambiguous world. The span of control is not flexible enough. The chain of command is too rigidly defined.

So, what should replace them?

Korn Ferry's recently released Enterprise Leadership Framework provides a researchbased multi-dimensional model linked directly to strategic impact. The "enterprise leader" applies the mindsets of purpose, courage, self-awareness, inclusion, and integrative thinking. Their purposeful leadership builds resilience in the face of disruption and setbacks.

They believe they have a responsibility and an opportunity to go beyond their own interests and the interests of their function to make a significant difference to others across the enterprise and outside it.

Our ongoing research tells us that the mindsets, traits, and drivers that make a great enterprise leader are the same mindsets, traits and drivers that make a great sustainable leader.

Organizations
that are serious
about ESG and
sustainability
need to cultivate
enterprise leaders
at the top.



Talent and skills

Organizational capabilities sit at the heart of every business transformation because they describe what the organization must be good at to achieve its strategy and intended outcomes. Companies form organizational capabilities through people, as the skills and knowledge of individuals become widely shared across everyone within an organization. So organizations must focus on sourcing, assessing and developing talent with the right knowledge and skills for change.

When it comes to ESG and sustainability, we believe there are five individual attributes that will enable companies to develop the organizational capabilities they need. These attributes, which we have identified through our ongoing work with clients in this area, are:

Analytical approach to problem solving

Solutions-oriented mindset

Ability to influence change

Empathy

Flexibility and adaptability

These attributes are currently in high demand, as businesses around the world compete for the talent they need to rapidly adapt and innovate.

Organizations that are serious about achieving their ESG goals should therefore consider securing skills through a range of talent strategies including "build", "buy", "borrow" and "boost".





How do we organize to deliver our ESG and sustainability strategy, including structure, work and platforms?

Most companies will need to change the way they operate to meet their ESG and sustainability goals. Does this mean they need to change their organizational structures too? Maybe.

The end goal, of course, is to ensure leaders can lead effectively, employees can do their best purpose-driven work, shareholders receive the value they expect, and customers and communities enjoy the best possible outcomes.

The question is, which organizational structure is mostly likely to help you achieve that goal?

Whether you decide on a wholesale restructure or not, you will most likely need to change how work gets done in your organization. Meeting sustainability goals will require new operating models, new technology, new skills, and new approaches. Employees will need to collaborate in different ways and perform more complex work. Job descriptions and career paths will inevitably change.





Organizations need to ask themselves six key questions when making decisions about workforce transformation and how it is impacted by ESG strategy:



Organizations that understand and handle these interdependencies properly will be better able to create ways of working that work for everyone—the business, their employees, society and the planet.



How do we create the right culture and mindsets, engage our people and reinforce the right behaviors?

Culture is the way things get done within organizations. It is made up of the attitudes, norms, beliefs and behaviors that determine how people show up at work, what they prioritize, and the decisions they make.

Getting culture right is essential for any successful transformation. Organizations can invest heavily in ESG-friendly structures, workforce strategies and governance models, but if they are unable to align hearts and minds and educate around the company's ESG goals then nothing will change.

And, unlike changes to business structures or operating models, this can't simply be defined and implemented from the top down. Few people are prepared to alter their attitudes and beliefs simply because senior management tells them to. Instead, leaders need to give people a say in culture change, asking them for input, listening to their perspectives, and involving them in planning. They also need to make it clear to everyone in the organization why the change matters and how it puts them in a better position to meet the needs of their customers and of society.

The good news is that the relationship between culture and sustainability runs both ways.

Not only can your culture help drive ESG activities, but ESG activities can also help increase engagement with new and existing employees and rally people around your organizational goals.

If you want to make ESG and sustainability a powerful lever of employee engagement within your organization, there are three key factors you need to consider:

Tie ESG initiatives clearly to your mission and purpose. Sustainability strategies are more compelling when they are locked into organizational objectives rather than being treated as a sideline.

Ensure that the organization's commitment is authentic. Hollow claims are unlikely to have a lasting impact on employees and stakeholders, no matter how much you spend on advertising and social media campaigns.

Offer ongoing opportunities for employees to get involved. This has multiple benefits. It strengthens and extends organizational impact. It enables values-driven employees to connect their work with issues that matter to them. It also gives people opportunities to achieve career objectives by developing new skills and building networks outside the organization—opportunities that consistently emerge as the top drivers of employee engagement across Korn Ferry's global database.



Conclusion

When we make radical choices to build an environment that allows human potential to flourish, we create organizations that are capable of doing far more than simply delivering on financial goals. We create organizations that deliver on the triple bottom line of people, profit and planet.

At Korn Ferry, we call these "radically human" organizations. And we believe that thinking and acting in a radically human way is the key to delivering on ESG and sustainability goals. That's why it's critical to look beyond science and technology and to start giving serious consideration to the people-related issues that impact your ESG strategy, from corporate governance to company culture, from leadership development to talent acquisition.

Key terms

SUSTAINABILITY embeds value generation into business strategy for the long-term benefit of all stakeholders. An integrated sustainability strategy reinforces that environmental, social and other impacts are incorporated into important business and operational decisions.

ESG (Environmental, Social, Governance) measures performance through a set of criteria developed for rating and reporting. An ESG rating measures environmental and social impacts and the effectiveness of corporate governance in managing them.

References

- 1. Activating Transformation, Korn Ferry Institute, 2021
- 2. The future of organizations is here, Korn Ferry Institute 2021
- 3. www.maindatagroup.com

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How we can help

Korn Ferry has an unmatched set of integrated, fit-forpurpose capabilities to help organizations embed their commitment to ESG and sustainability into all aspects of how they do business. We work with our clients to adapt their people and governance processes, culture, and operating models, so they are able to fully realize their short and longer-term ambitions. If you're ready to take the next step on your ESG and sustainability journey, please get in touch.

Get in touch

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Korn Ferry is a global organizational consulting firm. We work with our clients to design optimal organization structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward and motivate their workforce while developing professionals as they navigate and advance their careers. Our 7,000 experts in more than 50 countries deliver on five core areas: Organization Strategy, Assessment and Succession, Talent Acquisition, Leadership Development, and Total Rewards.